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MAR 19 1987

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code.

The information submitted indicates that you were organized as an unincorporated association on [Redacted]. You were organized exclusively for non-profit purposes within the provisions of section 501 of the Internal Revenue Code and such purposes shall include the following:

1. To serve as the collegial body through which individual practitioners may obtain membership prerogatives and clinical privileges at [Redacted] facilities and through which they fulfill the obligations of Staff membership.
2. To provide an appropriate education setting for graduate and continuing medical education programs for students, residents and members of the Medical Staff.
3. To participate in physician quality assessment and utilization management by conducting activities for assessing, maintaining, and improving the quality and efficiency of medical care provided in the [Redacted] facilities.

You indicated that your activities include the following:

- A. To participate in the quality assessment and utilization management program by conducting all required and necessary activities for assessing, maintaining and improving the quality and efficiency of medical care provided in the [Redacted] facilities, including:
  1. Evaluating practitioners in institutional performance through valid and reliable measurement systems;
  2. Engaging in the ongoing monitoring of critical patient care practices;

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3. Evaluating practitioners' credentials for appointment and reappointment to membership in the [redacted] organization and for the delineation of clinical privileges that may be exercised by each individual practitioner in the [redacted] facilities;

A. Promoting the appropriate use of the medical and health care resources at the [redacted] for meeting patients' medical, social and emotional needs.

B. To provide a mechanism for accountability to the Board of Trustees of [redacted] for the appropriateness of the patient care services and professional and ethical conduct of each individual practitioner holding membership in [redacted], to the end that patient care provided at the [redacted] facilities is consistently maintained at that level of quality and efficiency which is consistent with generally recognized standards of care in [redacted].

Membership in the organization is limited to those physicians who enjoy Staff membership at the Medical Center. Members must pass licensing, professional education training, board certification, and other criteria established by you and the Medical Center.

Membership is divided into six classes: Probationary, associate, active, senior, courtesy and honorary. Active members have full authority to admit patients without limitation, vote on all matters presented at general and special meetings, to hold office, and to exercise such clinical privileges as are granted to him.

Your bylaws and other documents set forth detailed rules and regulations concerning governing and operation of the medical and dental staff of the Medical Center, including the manner of appointment, the clinical privileges, when and how members are suspended at the Medical Center, appeal procedures upon suspension, etc.

Your revenues are principally from dues from members. Expenditures were for educational programs, library equipment, retirement gifts, and plaques.

Section 501(c) of the Code describes certain organizations exempt from Federal income tax under section 501(a) and reads, in part, as follows:

"(6) Business leagues, chambers of commerce, real estate boards, boards of trade, \*\*\*, not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual."

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Section 1.301(c)(6)-1 of the regulations provides as follows:

"A business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league. \*\*\*"

In National Muffler Dealers Association, Inc. v. U.S., 440 U.S. 472 (1979), the Court held that an association of a particular brand name of muffler dealers did not qualify for exemption because the association was not engaged in the improvement of business conditions of a line of business.

An organization promoting the common business interest of a specific profession, for example, all medical doctors practicing in an area, would generally qualify for exemption under section 501(c)(6) of the Code. (see Revenue Ruling 71-504, Cumulative Bulletin 1971-2, 231). All doctors are welcome and are encouraged to join and support the organization. However, you restrict your membership to physicians and dentists wishing to practice at [redacted] and specifically exclude those not qualifying in accordance with your rules and regulation. Your primary activity does not appear to be to improve the business conditions in the medical profession generally, but to benefit your members by setting up rules and regulations under which to admit members and restrict staff membership.

Further, by restricting membership to doctors practicing at only one hospital, you represent only a segment of a line of business rather than "one or more lines of business" as required by the Regulations. You are comparable to the National Muffler Dealers Association because it limited its members to those dealers who sold a particular brand of muffler and not all brands of mufflers.

Accordingly, it is held that you do not qualify for tax-exempt status under section 501(c)(6) of the Code. You are required to file an annual federal income tax return on Form 1120.

You asked about consideration under section 501(c)(5) as a labor organization. We do not feel that you would qualify under that section because there is no employer-employee relationship between the Medical Center and your members.

Date	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer

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If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

[Redacted]  
District Director

Enclosures:  
Form 6018  
Publication 892

cc: [Redacted]

Date	Letter	Protestor	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer